MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016/2017

BFN2044 – BANK MANAGEMENT

(All sections / Groups)

11th March 2017
2:30 PM – 4:30 PM
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 3 pages with 4 questions only.

2. Attempt ALL FOUR questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answer in the Answer Booklet provided.

Question 1 (25 marks)

a) Return on equity (ROE) capital is the ratio that represents the rate of return earned on the funds invested in the bank by its stockholders. What are the principal components of ROE, and what does each of these components measure?

(8 marks)

b) (i) Suppose a bank has an ROA of 0.80 percent and an equity multiplier of 12X. What is its ROE?

(2 marks)

(ii) Suppose this bank's ROA falls to 0.60 percent. What is the equity multiplier if the bank wants to hold its ROE unchanged?

(3 marks)

c) (i) Baron Bank invested a portion of their funds into a long-term investment assets to avoid credit risk by borrowers. One of the investment the bank is interested in is a government bond which is currently selling for RM1,195 and pays RM75 per year in interest for 14 years when it matures. If the redemption value of this bond is RM1,000, what is its yield to maturity if purchased today for RM1,195?

(6 marks)

(ii) Suppose the government bond described in problem (c)(i) above is held for five years and then Baron bank decides to sell it at a price of RM940. Calculate the holding period yield (HPY) will have earned for its five-year investment in the bond?

(6 marks)

Continued...

Question 2 (25 marks)

The Dutch Bank finds that its asset and liability portfolio contains the following distribution of maturities and repricing opportunities:

Interest Sensitive Assets	Coming Week (RM million)	Next 30 Days (RM million)	Next 31-90 Days (RM million)	More Than 90 Days (RM million)
Loans	200.00	300.00	475.00	525.00
Securities	21.00	26.00	40.00	70.00

Interest Sensitive Liabilities	Coming Week (RM million)	Next 30 Days (RM million)	Next 31-90 Days (RM million)	More Than 90 Days (RM million)
Transaction deposits	320.00	0.00	0.00	0.00
Time accounts	100.00	290.00	196.00	100.00
Money market borrowings	136.00	140.00	100.00	65.00

(a) When and by how much is the bank exposed to interest rate risk? Show your calculations.

(16 marks)

(b) For each maturity or repricing interval, what changes in interest rates will be beneficial and which will be damaging, given the current portfolio position?

(5 marks)

(c) NYC Bank has posted interest revenues of RM75 million and interest costs from all of its borrowings of RM54 million. If this bank possesses RM700 million in total earning assets, what is NYC Banks's net interest margin?

(4 marks)

Question 3 (25 marks)

a) Banks keep investment security portfolios to help stabilize their income when loan revenues fall. Explain the five (5) types of maturity strategies that banks employ in managing their portfolios. Please provide an example each.

(15 marks)

b) A bond currently sells for RM970 based on a par value of RM1,000 and promises RM90 in coupon payment for three years before being retired. Yields to maturity on comparable-quality securities are currently at 12 percent.

i) Calculate the bond's duration? (7 marks)

Continued...

ii) Suppose interest rates in the market fall to 10 percent. What will be the approximate percent change in the bond's price?

(3 marks)

Question 4 (25 marks)

a) Explain four (4) guidelines that management of a bank should consider when it manages a financial firm's liquidity position.

(4 marks)

b) The purpose of all loan workouts by a bank is to maximize the chances of recovery of funds from problematic borrowers. As a bank manager, briefly explain seven (7) loan workout processes to your subordinate.

(7 marks)

c) Analysis of the financial statements of a business borrower typically begins when the bank analyses the trends of key ratios using borrower's financial statement. With the help of these ratios, the loan officers and credit analysts will determine whether their financing to the firm will be approved of rejected.

As a credit analyst, you are given the following information for EXXA Sdn Bhd.

Business Assets (RM Million)	
Cash account	60
Accounts receivable	155
Inventories	128
Fixed assets	286
Miscellaneous assets	96
	725
Liabilities and Equity (RM million)	
Short-term debt:	108
Accounts payable	117*
Notes payable	325*
Long-term debt (bonds)	15
Equity capital	160
	725

Calculate the key ratios for profitability and financial leverage for this company when the net sales is RM600 million, before tax and after tax net income is RM6 million and RM5 million respectively.

(14 marks)

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